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Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

22 February 1983

CHINA: Managing Foreign Trade Under Decentralization [redacted] 25X1

Summary

Nearly four years after China began its experiment with decentralizing its foreign trade sector, a consensus still has not been reached within the leadership about how far to loosen the reins of authority. Beijing continues to search for the proper mix of regulations which will stimulate trade without causing undue confusion both at home and abroad. Proponents of decentralized foreign trade still appear to have the upper hand, even though they have been forced to allow greater central coordination. During the past year, a number of steps have been taken to control prices and to reduce turf fighting among the localities. The decision last June to allow the Coal Ministry to handle its own foreign trade may presage an eventual transfer of trading authority for China's key commodities from the Ministry of Foreign Economic Relations and Trade (MFERT) to the production ministries. A decentralized trading structure may eventually facilitate more Sino-US trade, if the confusion created by competing trade entities can be eliminated. [redacted] 25X1

Reforming Foreign Trade

Beijing began decentralizing control of its foreign trade sector in 1979 with the hope that by allowing producers and end-users to serve as decision-makers, China's foreign trade would

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become more efficient. To encourage these efforts certain provinces and production ministries were authorized to handle their own trade and retain a portion of their export earnings. In 1981, after the overzealous nature of these new Chinese trading entities had caused cutthroat competition and duplicate purchases, Beijing began to reimpose tighter controls over foreign trade. This led both the Ministry of Foreign Trade and the new trading entities to lobby the leadership in an effort to retain their authority. Beijing has made concessions to both sides as it continues this experiment. 25X1

The lack of consensus as to what approach China should take in reforming its foreign trade operations can be explained partially on the basis of differences within the leadership over this issue. Premier Zhao Ziyang has been a strong advocate of decentralizing foreign trade, although the negative effects of the program led Zhao to make a self-criticism at a conference last year for proposing the slogan, "Let everyone get involved in foreign trade." Nevertheless, Zhao told the National People's Congress last November that coastal cities such as Shanghai and Tianjin will be given greater autonomy in their foreign economic relations. Support for more cental control over foreign trade probably emanates from conservative leaders, such as Politburo Standing Committee member Chen Yun, who favor a more centrally planned economy. An article published last April in the political monthly Liaowang may have represented this view when it called for strengthened leadership over foreign trade and cited the negative example of five different Chinese trade delegations simultaneously visitng West Germany to sell the same product. 25X1

Greater Oversight Over Provincial Trading

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Beijing's attempt to increase control over its new trading entities has been directed primarily against provincial trading firms. These firms often have been found charging unreasonable prices and involved in dubious deals. In 1982 the State Council took the following steps in an effort to rein in provincial trading firms:

- By June, Beijing instituted both an import and export license system and export duties to control internal competition and better manage its foreign trade plan. The export duties range from 10 to 60 percent on some 34 commodities.

- In July Beijing expanded the scope of the Guangzhou Trade Fair to cover commodities which had been dropped from the spring 1982 session. In addition, it prohibited the provinces from holding their own general export commodity fairs.

- On 1 August the State Council announced that it had decided to allow MFERT to establish trade commissions at

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Shanghai, Tianjin, Guangzhou, and Dalian. These offices will have broad authority to coordinate foreign trade activities in these regions.

-- In August, the State Council approved efforts to shut down most of the approximately 300 companies Chinese trading firms had set up in Hong Kong. [redacted] 25X1

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The primary concession Beijing made to the provinces was a promise not to interfere with or impose limitations on economic projects or trade deals Guangdong and Fujian provinces made with foreign firms, as long as no financial or other assistance was needed from the central government. Beijing took this step in recognition of the special status the two provinces have as spark-plugs for China's modernization effort. In addition, the threshold for central review of projects and deals was raised to \$5 million for Beijing, Tianjin, and Shanghai municipalities and to \$3 million for the other provinces. Guangdong was designated China's major technological transfer base, meaning that most of China's technology would be imported through that province and efforts to acquire foreign technology in Hong Kong would be intensified. [redacted] 25X1

Expanding the Role of Production Ministries

We believe Beijing's experiment with allowing production ministries to trade their own commodities directly, instead of through MFERT, has the greatest potential for evolving into a far-reaching restructuring of China's foreign trade structure. The creation of the China National Coal Import and Export Corporation under the Ministry of Coal on 22 June 1982 was the first full-fledged example of such a transfer, although other ministries had previously handled small portions of their trade independently. The new corporation handles much of China's coal trade and has held its own trade planning conference. The Ministries of Aviation Industry, Petroleum Industry, Machine Building, Metallurgical Industry, Electronic Industry, and Chemical Industry have all tried to gain control over their foreign trade, arguing that they could better handle their own trade since they know their production capabilities and needs. [redacted] 25X1

Beijing has denied these requests until it can better gauge the experience of the new Coal Corporation. If Beijing expands this experiment further, the production ministries could eventually control the trading of nearly all the commodities which make up the bulk of China's trade. In our view, this trend could stimulate China's trade, as the production ministries would

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be free of the encumbrance the MFERT constitutes as an extra layer of bureaucracy. 25X1

MFERT on the Defensive

The Ministry of Foreign Economic Relations and Trade (MFERT) has objected to the decentralization by arguing that only its personnel have the expertise necessary to conduct the mechanics of foreign trade. MFERT officials have also warned that foreign firms will become reluctant to trade with China if they cannot be certain they are dealing with the right Chinese organization and have doubts whether contracts they have concluded will be valid. 25X1

Despite the fact MFERT succeeded in retaining complete control over 26 key commodities at the foreign trade conference (see annex), we believe the ministry's influence and control over trade matters is vulnerable to further reductions. Many of MFERT's problems are based on the image it has within the leadership that it has done a lackluster job of promoting Chinese trade and that it has obstructed decentralization. As its operational role declines MFERT is likely to try to emphasize its oversight and coordination roles, but even then it will be in competition with the State Planning Commission, which recently received greater authority to approve the import of large and medium scale industrial projects. 25X1

Outlook

No end to the constant changes in China's foreign trade structure is in sight. The recently enacted controls on the activities of China's new trading entities, however, may eliminate some of the confusion associated with China's foreign trade. Nevertheless, past examples of local and ministerial trading firms bending or even ignoring rules are indicative of how difficult it will be for Beijing to retake the authority it gave away. If China eventually maintains a decentralized trading structure, US economic interests may benefit. The creation of smaller, profit motivated firms should lead to more stable business relationships, and perhaps less political interference in trade decisions. 25X1

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ANNEX

Commodities Controlled Completely by MFERT

(1) The China National Cereals, Oils and Foodstuffs Import and Export Corporation - foodstuffs, fats and edible oils, tung oil.

(2) The China National Textiles Import and Export Corporation - cotton yarn, unfinished cotton cloth, cotton-polyester cloth, unfinished cotton-polyester cloth, and silk products.

(3) The China National Metals and Minerals Import and Export Corporation - tungsten and tungsten products, antimony and antimony products, tin, cement, sponge titanium, pig iron, and steel billets.

(4) The China National Chemicals Import and Export Corporation - crude oil, refined oil, petroleum coke, bulk liquid chemicals, paraffin wax, heavy water, and metadimethyl hydrazine.

(5) The China National Native Produce and Animal Byproducts Import and Export Corporation - feathers, sausage skins, and hog bristles.

(6) The China National Arts and Crafts Import and Export Corporation - pearls. 25X1

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